

**STATE OF DELAWARE
PUBLIC SERVICE COMMISSION**

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September 18, 2013

MEMORANDUM

TO: The Chair and Members of the Commission

FROM: Malika Davis, Public Utility Analyst *MD*

SUBJECT: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR APPROVAL OF MODIFICATIONS TO ITS NATURAL GAS CASE RATES – PSC DOCKET NO. 13-349F (FILED AUGUST 28, 2013)

On August 28, 2013, Delmarva Power & Light Company ("Delmarva" or "Company") filed an application with the Commission seeking approval to modify its current Gas Cost Rates ("GCR") effective with usage on and after November 1, 2013, on a temporary basis and subject to refund, pending the conclusion of the evidentiary hearing and the Commission's decision.

The parties in Delmarva's prior GCR proceeding, PSC Docket No. 12-419F, reached a settlement which was ultimately approved by the Commission. The settlement agreement included provisions for the parties to work together to investigate the framework for future GCR filings that would improve the GCR process and minimize unrecovered costs carried into subsequent GCR filings. Delmarva also agreed to regularly update the parties about the status of a Lost and Unaccounted for Gas issue with a large volume gas transportation customer. In addition, the Company agreed to continue to review and discuss any potential modifications to the hedging program.

Staff is requesting the assistance of Mr. Jerome Mierzwa of Exeter Associates, Inc. in evaluating Delmarva's current GCR case. Mr. Mierzwa has experience with natural gas supply, demand and hedging issues from working with Staff in the prior Delmarva GCR case, the prior Chesapeake Utilities Corporation Gas Sales Service Rate filing, and his work in other jurisdictions. Some of the issues Mr. Mierzwa will review include the Company's procedures for forecasting demand requirements; the Company's overall gas procurement process, hedging and storage activities; and an analysis of the Company's recent internal and external gas costs audits. Staff did not issue a bid for the hiring of a consultant, but rather decided to utilize Mr. Mierzwa based on our working relationship in PSC Docket No. 12-419F. The Division of the Public Advocate (the "DPA") has also indicated that they would like to engage and have access to Mr. Mierzwa during all phases of this proceeding. Both Staff and the DPA believe this will be beneficial because it will help reduce additional rate case expenses incurred in this proceeding.

In conjunction with Staff and the DPA, Mr. Mierzwa will review the Company's application, prepare and respond to interrogatories, submit direct testimony, and participate in any settlement discussions. Staff has attached as **Exhibit "A"** Mr. Mierzwa's proposal for hourly billing at the rate of \$175. Accordingly, Staff requests that the Commission approve its request to hire Mr. Mierzwa as a consultant in this docket for a total contract not to exceed \$21,600.

EXETER

ASSOCIATES, INC.

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September 17, 2013

Mr. Bob Howatt
Executive Director
Delaware Public Service Commission
861 Silver Lake Boulevard
Dover, Delaware 19904

Re: In the Matter of the Application of Delmarva Power & Light Company
Concerning its Annual Gas Cost Rate
PSC Docket No. 13-349F

Dear Mr. Howatt:

In response to a request from the Delaware Public Service Commission Staff, Exeter Associates, Inc. ("Exeter") is pleased to submit this proposal for assistance concerning the above-referenced filing of Delmarva Power & Light Company ("Delmarva" or "the Company"). This proposal describes our understanding of the proceeding, the proposed engagement methodology, and fees. Inherent within this proposal is the fact that Exeter has experience with the gas operations of Delmarva. In addition, we have performed other gas fuel clause work in such states as Georgia, Illinois, Indiana, Louisiana, Nevada, New Jersey, Ohio, Pennsylvania, and Texas, and therefore can provide a broad perspective on the potential issues.

Understanding of the Case

Based on an initial review of the Company's Application, the following issues appear to be the most significant areas for review and investigation. These identified issues do not constitute an exhaustive listing; rather, they are indicative of those issues subject to review under Exeter's proposed work plan. Additional issues are expected to be identified and investigated as the proceeding progresses.

- The Company's procedures for forecasting demand requirements will need to be reviewed and analyzed. This will involve the Company's specification of heating degree design day levels, regression models, and evaluation of usage per customer levels and customer growth as they affect firm supply requirements.

Mr. Bob Howatt
September 17, 2013
Page 2

Exeter Associates, Inc.

- The seasonal and design day capacity will also be examined to ensure that any capacity reserved is appropriate, and that both pipeline storage and transportation resources are properly matched to demand requirements.
- From a policy perspective, the Company's evaluation of capacity options will be analyzed concerning the mix of storage, transportation, and peaking supplies. Likewise, capacity configuration concerning market area versus production area storage, and the diversification of supply and sourcing, will be evaluated to ensure system reliability and reasonable cost.
- Analysis will be performed on the Company's utilization of secondary market transactions, whether done in-house or by the Company's capacity manager. This will include a review of FERC compliance as well as the levels of margins or credits that are obtained from excess or seasonal capacity resources.
- The levels of Lost and Unaccounted for Gas will be reviewed along with Company use and gas losses associated with mains and services breaks caused by third parties. This analysis will also review volume and revenue accounting associated with gas supply.
- The Company's overall gas procurement and hedging activities will be evaluated as to guidelines, procedures, structure, and implementation. Recent trends in natural gas prices, along with greater price volatility, warrant review of overall objectives and the effectiveness of hedging activities.
- Our review will cover the determination of current gas cost deferral balances, the calculation of gas cost rates, balancing charges, and other gas cost related balances, forecasts, and recoveries.
- An analysis will be developed to ensure that interruptible sales, special contracts, balancing services, and standby service are all yielding positive and reasonable margins to the Company.
- The Company's utilization of its storage inventories will be analyzed to ensure that injection practices, fill targets, and withdrawals ensure supply reliability and minimize overall gas costs.
- Our review will include analysis of any internal or external audits of the Company's accounting for gas costs and revenues. Any recent audits will be reviewed in order to identify accounting deficiencies or material adjustments to reported gas costs or recoveries.

Mr. Bob Howatt
September 17, 2013
Page 3

Exeter Associates, Inc.

- Procedures for imposing penalties for imbalances, cash-out provisions, and non-deliveries will be evaluated in order to ensure that the penalties are sufficient to deter imbalances and are reasonable in light of recent gas price levels.
- Finally, it will be necessary to ensure that all proposed tariff changes and the revised tariff pages are correct and accurate in both form and content. It will also be necessary to ensure that the proposed tariffs do not include any changes that might alter or suspend existing consumer protections.

These potential issues are indicative of areas which will be subject to review under the proposed work plan. Additionally, it is also my understanding that the Division of the Public Advocate ("DPA") would like to have access to any documents prepared by myself and may also engage me during all phases of this proceeding. To the degree additional issues arise as the result of discovery or based on the direction of Staff, the DPA, or the assigned attorney, such issues will be fully reviewed and analyzed.

Case Methodology

Based on our experience in working with Staff, we propose the following basic methodology for the current engagement:

1. Analysis of the Company's Direct Case and Preparation of Information Requests

Exeter will do a complete review of the Company's direct testimony, exhibits, and other data relevant to the gas cost calculations. After that review, we will submit to the Company a list of requests for information which will be necessary to further analyze the Application. We will then review the answers to such information requests and, if necessary, attend any informal discovery meeting(s) with the Company, Staff, and the DPA to obtain further information or clarification of the filing and/or responses. Exeter will discuss with Staff and the assigned attorney the potential issues in the proceeding.

2. Prepare Direct and Surrebuttal Testimony and Hearing Support

As part of Exeter's work, we will prepare direct and surrebuttal testimony as required, respond to discovery on such testimony, assist Staff and the DPA in preparing position papers for any settlement discussions, and attend hearings. Exeter will discuss with Staff, the DPA, and the attorneys assigned and provide analysis and material for cross-examination; such material containing analysis of potential issues, exhibits relating to those issues, and a general outline of the questions to be responded to by witnesses.

Mr. Bob Howatt
 September 17, 2013
 Page 4

Exeter Associates, Inc.

Staffing and Proposed Fees

We propose that all of the work to be performed under this project be conducted by Jerome D. Mierzwa. Mr. Mierzwa's standard hourly billing rate is \$175. Fees and expenses will be billed on an actual basis and the total contract would be on a not-to-exceed basis. The breakdown below is based on Exeter's prior experience in this and other jurisdictions as well as the nature of this particular engagement.

Based on our proposed work plan, the fees and expenses for this case are as follows:

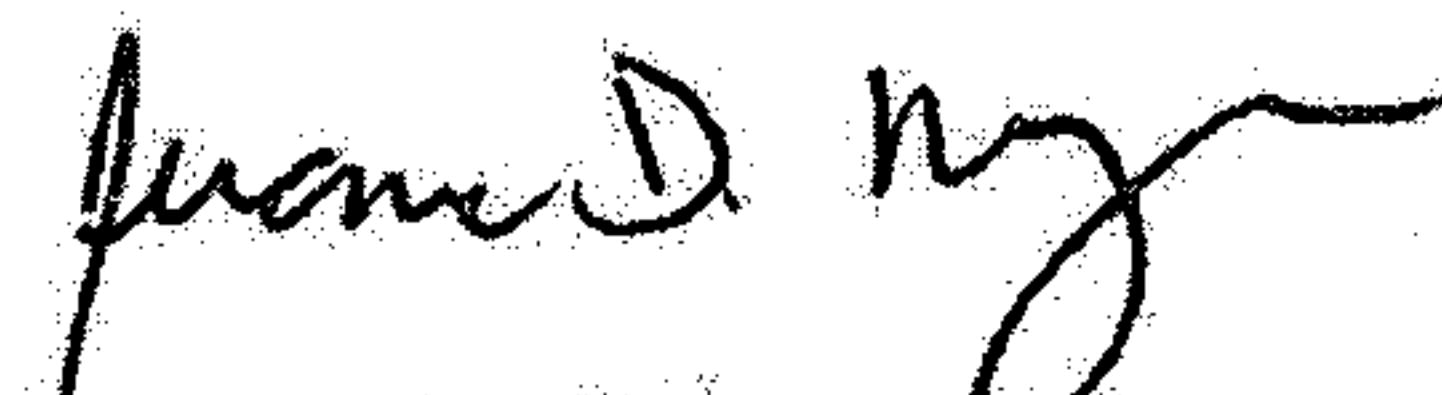
	<u>Hours</u>	<u>Rate</u>	<u>Fees</u>
Professional Services	122	\$175	\$21,350
Expenses			<u>250</u>
Total:			\$21,600

The proposed fees and expenses are based on prior budgets for similar work. By work plan component, the proposed fees are distributed as follows:

1.	Review and Analysis of Filing, Preparation of Interrogatory Requests, Analysis of Identified Major Issues, Discovery Meetings with Company, and Discussion of Issues with Staff and the DPA	\$13,000
2.	Preparation of Direct and Surrebuttal Testimonies, Discovery Responses, Attendance at Hearings, Preparation of Cross, and Participation in any Settlement Discussions	<u>\$8,600</u>
	Total Fees and Expenses	\$21,600

We appreciate the opportunity to submit this proposal to you and look forward to working with Staff again. If you have any questions concerning this proposal, please contact me at 410-992-7500.

Sincerely,


 Jerome D. Mierzwa
 Vice President

cc: Malika Davis